HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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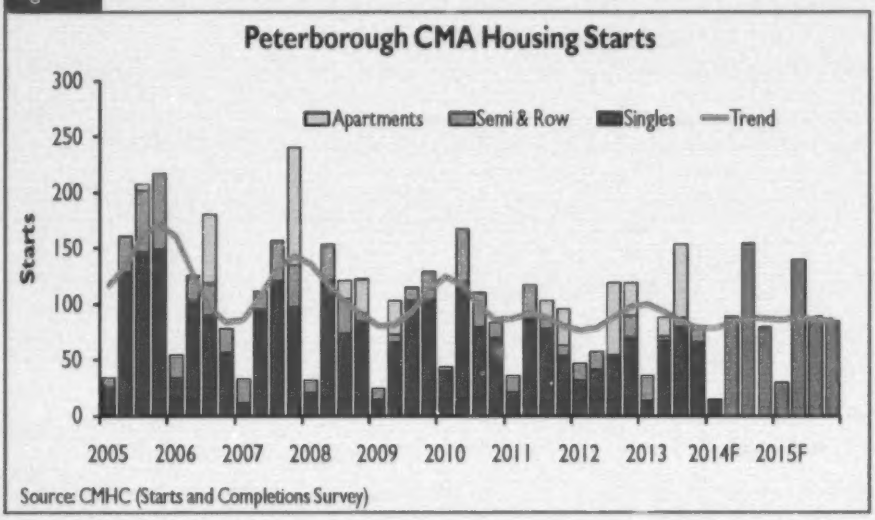
Highlights

- Housing starts will edge lower.
- MLS® sales to decline slightly with gradual improvement through 2015.
- Rental apartment vacancy rate to decline slightly.
- Job creation to pick up.

Figure 1



The forecasts included in this document are based on information available as of April 30, 2014.

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New Home Market: New Home Construction to Trend Lower

A modest downtrend is expected in housing starts this year as relatively inactive labour market conditions and growing levels of completed and unabsorbed inventories will limit any significant boost to housing demand. Slower multi-family home construction, especially rental apartment unit starts will be driving the moderation. In the past year, row and apartment construction has been trending lower, and is predicted to moderate further this year before picking up in 2015. Single-detached housing starts will remain unchanged, at around 225 units this year and next, below the ten-year construction average of 308 units.

New homes will face greater competition from their resale equivalents, which can better compete from both a price and location standpoint. In the existing market the new listings have been on an upward trend since the last quarter of 2012. Even though income is expected to recover in 2014, the shift towards purchasing more affordable home types in the resale market will also hold true for new home developments. Smaller singles and townhouses will be a new strategy for builders to satisfy homebuyers' preferences. Those close to services and amenities, such as transportation and health care, are attractive to both: baby boomers looking to retire to a quieter place not far from Toronto and for people who already retired, allowing them to put money aside by moving to a lower priced home in the region.

Existing Home Market: Sales to Soften This Year Before Rebounding

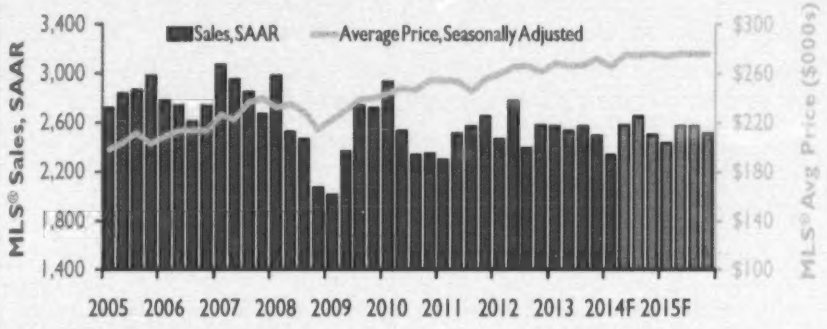
Existing home sales in the Peterborough CMA are expected to soften in 2014 before seeing a modest pick-up in 2015. Year-to-date resale activity has slowed by 9 per cent. For the first time in the last three years first quarter sales of existing homes slipped below the 600 mark on a seasonally adjusted basis. Job losses this year have made consumers hesitant about taking on major financial commitments. Both first-time buyers and move-up buyers are less inclined to purchase homes when faced with uncertainty in the labour market.

Offsetting the challenging labour market conditions is Peterborough's proximity to the GTA and its reputation as an attractive retirement community. As Canada's smallest census metropolitan area, it offers many of the advantages of a large city at lower costs. While the average home price difference between Toronto CMA and Peterborough CMA was $124,000 in 2003, ten years later it had increased to $253,000, encouraging more movement to Peterborough.

Average home price will increase at a modest pace of one per cent this year, supported by low interest rates. According to the latest CMHC calculations, the income required[1] to carry an average mortgage relative to actual income experienced a slight decrease due to a healthy income growth of 1.5 per cent. The improved affordability will attract homebuyers and support the housing market recovery in 2015.

Figure 2

Peterborough MLS® Sales* and Average Price*



Source: CMHC adapted from CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate

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[1] Required income is mortgage carrying cost divided by 0.32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed five-year mortgage rate and 25 year amortization.

Rental Market: Vacancies Will Edge Lower

The Peterborough rental market will remain stable this year and next. In 2014, the average rental apartment vacancy rate is anticipated to decrease from 4.8 to 4.0 percent. Continued in-migration to the region will increase demand for rentals. Historically, Intra-provincial migration, those who move to the region from other parts of Ontario, has been the largest contributor of new residents. Often new migrants tend to rent until they become more established.

Enrolment increases at Trent University and Fleming College will add to the demand for rental housing. Relocation of the Seneca College School of Aviation from Markham to Peterborough's Airport will add to the demand as well. Half of the program's full time faculty have already re-located to Peterborough. Students moved in when classes began in January 2014. The school consists of approximately 150 students and 60 full and part-time faculty and staff.

General economic, aging population and housing conditions are expected to be supportive of rental housing demand. High house prices will make consumers become more cautious towards homeownership.

Economic Trends: Job Creation to Pickup

In Peterborough Region signs of gradual employment recovery are evident. A number of construction projects supported by public funding to upgrade public infrastructure are expected to lead the recovery. In March, Parks Canada announced 58 million dollar investment in major capital projects and ongoing preventative maintenance to the Trent-Severn Waterway. These projects will span over the next two years. Local projects include the Otonabee Dam Deck rehabilitation and the Thompson Bay Dam reconstruction. Both projects will receive over 9 million dollars combined. Approximately 40 companies are engaged in water industry related activities in the region, in areas such as waste water management and remediation. The investment will support communities and businesses along historic Trent-Severn Waterway.

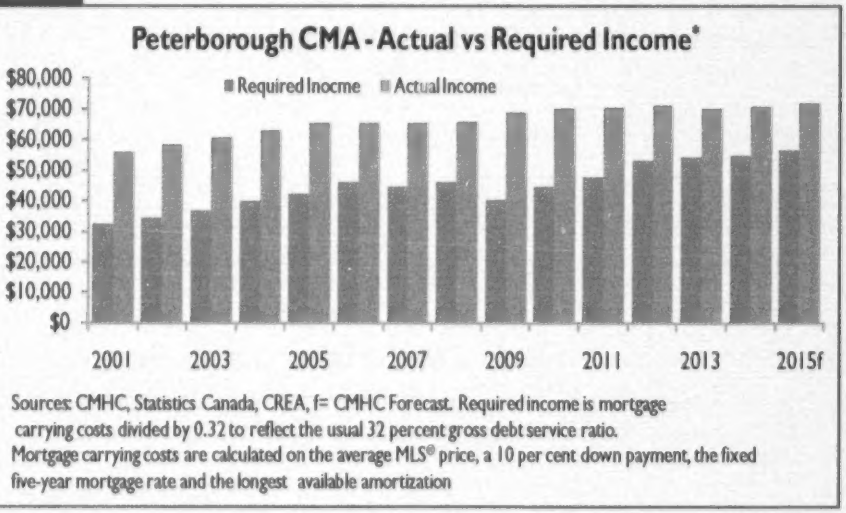
Another field that is contributing to employment growth is the health industry. Workers in this industry are currently in high demand by Peterborough Regional Health Centre, the region's largest employer. Peterborough is one of the oldest Census Metropolitan Areas in Ontario in terms of median age, and the growing older demographic will likely lead to further increase in the health services sector.

The unemployment rate in Peterborough is forecast to moderate from 8.6 to 8.4 per cent by the end of this year and to 7.8 per cent by the end of 2015.

The improving labour market conditions will have a positive impact on incomes. After a 2 per cent decline in 2013, average annual earnings are expected to recover at relatively modest rates of 1.5 per cent and 1.7 percent in 2014 and 2015 respectively.

The slowly improving job market in Peterborough will support consumer spending and housing demand over the next two years.

Figure 3



Sources: CMHC, Statistics Canada, CREA, f= CMHC Forecast. Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization

[1] Required income is mortgage carrying cost divided by 0.32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed five-year mortgage rate and 25 year amortization.

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

- Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.
- According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to increase gradually and steadily over the forecast horizon. However, they will remain low by historical standards.
Employment	Gains in full time jobs and in the labour force will continue to support housing demand.
Income	Average incomes fell slightly in 2013. They will recover in 2014. Moderate growth is expected due to the modest pace of economic growth in Canada and globally.
Population	A steady, low in-migration will stimulate demand for all types of housing over the forecast horizon.
Resale Market	Balanced market conditions are expected to prevail over the forecast horizon.
Vacancy Rates[2]	Average vacancy rates are expected to decrease slightly due to enrolment increases at Trent University and Fleming College. Students at the new Aviation School, which is brought to Peterborough by Seneca College, will also add to rental demand.

Forecast Risks

This outlook is subject to some risks, including:

- Mortgage interest rates are still near their historical low. Should mortgage interest rates rise sooner or faster than expected by potential buyers and existing mortgage holders, this could lead to a lower level of activity in Canada's housing market and generate some financial risks for the more heavily indebted homeowner households in the medium to longer term.
- If unemployment was to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.
- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

[2] Rental vacancy rates are for purpose-built rental apartments and do not cover condominium units that are offered up for rent by owners on the secondary rental market.

Forecast Summary Peterborough CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	239	197	224	225	0.4	225	0.0
Multiples	112	146	130	115	-11.5	120	4.3
Semi-Detached	6	2	0	5	n/a	5	0.0
Row/Townhouse	58	50	48	45	-6.3	40	-11.1
Apartments	48	94	82	65	-20.7	75	15.4
Starts - Total	351	343	354	340	-4.0	345	1.5
Average Price ($):							
Single-Detached	330,749	327,943	318,141	322,000	1.2	328,000	1.9
Median Price ($):							
Single-Detached	289,990	293,990	299,000	302,000	1.0	307,000	1.7
New Housing Price Index (% chg. Ontario)	3.6	4.1	2.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	2,507	2,553	2,539	2,515	-0.9	2,520	0.2
MLS® New Listings	5,043	4,843	4,887	4,860	-0.6	4,880	0.4
MLS® Average Price ($)	254,604	264,946	271,161	274,000	1.0	276,000	0.7
Rental Market							
October Vacancy Rate (%)	3.5	2.7	4.8	4.0	-	3.7	-
Two-bedroom Average Rent (October) ($)	899	904	915	920	-	930	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	57,700	59,300	55,400	57,900	4.5	59,100	2.1
Employment Growth (%)	0.9	2.8	-6.6	4.5	-	2.1	-
Unemployment rate (%)	9.4	8.2	8.6	8.4	-	7.8	-
Net Migration	145	586	437	400	-8.5	420	5.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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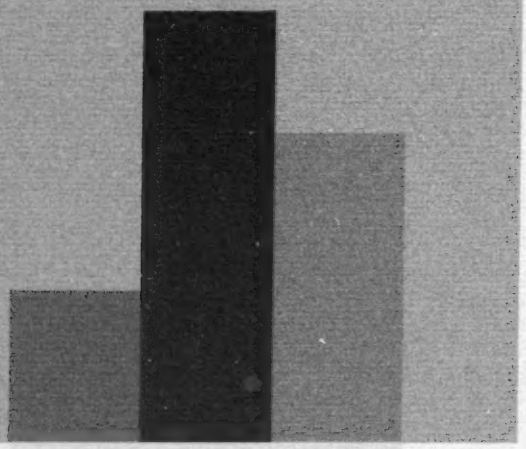

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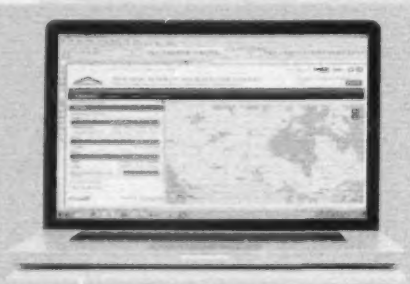

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